STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

SelectHealth Benefit Assurance Company, Inc.

of

Murray, Utah

as of

December 31, 2013

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November 27, 2014

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2013, has been made of the financial condition and business affairs of:

SelectHealth Benefit Assurance Company, Inc.
Murray, Utah

hereinafter referred to in this report as "the Company" or "SHBAC," and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

<u>Period Covered by Examination</u>

The Company was last examined as of December 31, 2009. The current examination included a review to determine the status of recommendations noted in the previous examination report of the Company dated February 17, 2011. All comments and recommendations reported in the previous examination report were satisfactorily addressed.

The current examination covers the period from January 1, 2010 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

<u>Examination Procedure Employed</u>

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Utah, and insurance rules promulgated by the Utah Insurance Department (the Department). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statement of Statutory Accounting Principles (SSAPs) and annual statement instructions when applicable to domestic state regulations.

The Company retained the services of a certified public accounting firm, KPMG, LLP, to audit its financial records for the years under examination. An unqualified opinion was rendered for all years under examination. The firm allowed the examiners access to requested workpapers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. In order to develop an examination plan tailored to the Company's individual operating profile, the initial phase of the examination focused on evaluating the Company's business approach as well as governance and control environment. A functional activity approach was determined to be appropriate.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risks for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment, work performed by external audit functions, and work performed by internal audit. Interviews were held with the senior management and the Board of Directors of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risks, examination procedures were reduced where considered appropriate.

The examination relied on the findings of the actuarial firm of Taylor- Walker & Associates, Inc. contracted by the Department to determine the adequacy of Loss Reserves, Loss Adjustment Expenses, Premium Deficiency Reserves, and Pricing Policy.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and is included in the examination workpapers.

Status of Prior Examination Findings

The last examination was completed as of December 31, 2009. Items of significance noted in the prior examination report summary were adequately addressed by the Company.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

The contract between the Company and the national insurer is silent relative to characterizing the arrangement as reinsurance. There are no references to ceding risk to or assuming risk from the other party.

Therefore we recommend that, beginning in 2015, SHBAC record this transaction on NAIC Quarterly and Annual Statements as reinsurance in accordance with SSAP No. 61 and the NAIC Annual Statement blanks instructions as claims unpaid and premiums assumed. In addition, SHBAC should formalize a written reinsurance agreement with the national insurer with the required clauses in accordance with SSAP No. 61 and report the reinsurance assumed on Schedule S on its Annual Statements (REINSURANCE).

SUBSEQUENT EVENTS

In March 2014, the Company received a license to do business in the State of Idaho.

COMPANY HISTORY

General

In 1975, the Church of Jesus Christ of Latter-day Saints transferred all assets and liabilities of its hospital system to a board of trustees (Board), which in turn created Intermountain Health Care, Inc. (IHC), a nonprofit corporation, to own and operate the hospital system. In 1982, IHC Hospitals, Inc., subsequently named IHC Health Services, Inc., was established as a subsidiary of IHC for the purpose of operating the hospital holdings.

On December 27, 1983, IHC incorporated IHC Health Plans, Inc. (HPI) under the provisions of the Utah Nonprofit Corporation and Cooperative Association Act, for the purpose of developing and administering financial mechanisms for its network of health care services. HPI began operations as a nonprofit preferred provider Company, and on December 6, 1985, became licensed as an HMO. HPI formed and became the sole controlling member of IHC Care, Inc. (Care), a non-profit HMO in 1985 and IHC Group, Inc. (Group), a non-profit HMO in 1991; both of which were merged into HPI during 2000. In 1992, HPI formed a wholly owned for-profit life and health insurance company, IHC Benefit Assurance Company (IBAC), Inc. In 2006 HPI changed its name to SelectHealth, Inc. (herein referred to as SHI), and IBAC changed its name to SelectHealth Benefit Assurance Company, Inc.).

Dividends and Capital Contributions

Additional paid in and contributed surplus reported as of December 31, 2013, was $1,250,000. During 2010, the Company paid $5,000,000 to its parent company, decreasing the total reported additional paid in and contributed surplus from $6,250,000 to $1,250,000.

Mergers and Acquisitions

There have been no mergers or acquisitions since the prior examination.

CORPORATE RECORDS

In general, the review of the Board minutes indicated that the minutes support the transactions of the Company and the actions taken by its officers. The Company's bylaws define a quorum as a majority of the Board. A quorum was achieved at all of the meetings.

The previous examination report as of December 31, 2009, dated February 11, 2011, was distributed to the Board of Directors and approved on May 11, 2011, in accordance with Utah Code Annotated (U.C.A.) § 31A-2-204(8).

There were various changes to the Company's articles of incorporation since the last examination.

In reviewing the articles of incorporation and the bylaws for all changes and for compliance with Utah insurance laws and rules, the previous examination encountered various issues related to the Company's maintenance of the articles of incorporation and bylaws. U.C.A. § 16-6a-1601 sets forth the requirements for maintaining permanent corporate records. The Company was unable to produce evidence that it was in compliance with U.C.A. § 16-6a-1601(1) lacking certain permanent records; was unable to produce in written form within a reasonable time, records of all actions taken since January 1, 2007, pursuant to U.C.A. § 16-6a-1601(4); and did not maintain a copy of all corporate records at its principal office as required by U.C.A. § 16-6a-1601(5).

During April 2010, the Company moved to its new office location in Murray, Utah. Neither the articles of incorporation nor the bylaws were amended to reflect the change in location of the principal office, as required by U.C.A. § 16-17-202.

In order to resolve the various issues related to prior examination of the articles of incorporation and bylaws, and to bring the Company into compliance with U.C.A. § 16-6a-1601, § 16-17-202, § 31A-5-219, the following actions were taken. The Executive Committee of the Board of Directors and the sole member, SelectHealth, Inc., approved new Articles of Amendment to the Articles of Incorporation, Amended and Restated Articles of Incorporation, and amended bylaws, superseding all previous versions. The new documents were immediately filed with the Department on October 14, 2010, and the Articles of Amendment to the Articles of Incorporation and the Amended and Restated Articles of Incorporation were approved by the Insurance Commissioner on November 9, 2010, as required by U.C.A. § 31A-5-219.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Company indicated the number of directors may be no less than four and no more than thirty. The following persons served as directors of the Company as of December 31, 2013:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Patricia Rae Richards Salt Lake City, UT	President and CEO SelectHealth, Inc.,

	SelectHealth Benefit Assurance Company, Inc.
Douglas Charles Black Salt Lake City, UT	Retired
Mark Richard Briesacher, MD Salt Lake City, UT	Senior Executive Medical Director, Intermountain Medical Group
Keven Jay Jensen Sandy, UT	Retired
Edward Gerald Kleyn Ogden, UT	Retired
Daniel Gerald Gomez Sandy, UT	President Gomez Corp. Financial Advisors
Barbara Jean Ray Salt Lake City, UT	Chief Executive Officer Vintage Point Advisors
Michael Maughan Smith Holladay, UT	COO and General Counsel First American Title Insurance Co.
Charles Wallace Sorenson Jr., MD Salt Lake City, UT	President and CEO Intermountain Healthcare
Scott David Sperry Sandy, UT	Executive VP and COO O.C. Tanner Company
Andrea Polle Wolcott Salt Lake City, UT	Retired
Albert Rene' Zimmerli Sandy, UT	Executive Vice President and CFO, Intermountain Healthcare

The composition of the Board of Directors meets the requirements of the Company's bylaws.

The Company's bylaws provide for officers to consist of a President, a Vice President, a Secretary, a Treasurer, and such other officers as shall be determined by a resolution of the Board of Directors. The officers of the Company as of December 31, 2013, were as follows:

Name	Title
Patricia Rae Richards	President and Chief Executive Officer

Mark Andrew Brown	Vice President, Chief Financial Officer, and Treasurer
Stephen Loren Barlow, MD	Vice President, and Chief Medical Officer
Jerry Roy Edgington	Vice President, and General Manager, Idaho
James Murphy Winfield	Vice President, and Chief Marketing Officer
Robert Letcher White	Vice President, and Chief Operating Officer
Gregory John Matis	Secretary

Audit & Compliance Committee
Members

Edward Kleyn, Chair
Scott Sperry, Vice Chair
Barbara Ray
Andrea Wolcott
Douglas Black, ex officio

(Effective April 2014, Edward Kleyn resigned and was replaced by Scott Sperry)

Executive Committee Members

Douglas Black, Chair
Barbara Ray, Vice Chair
Albert Zimmerli
Patricia Richards

(Daniel Gomez was added to the Committee effective June 2014)

Finance Committee Members

Barbara Ray, Chair
Edward Kleyn
Scott Sperry
Andrea Wolcott
Albert Zimmerli
Doug Black, ex officio

(Effective April 2014, Edward Kleyn resigned)

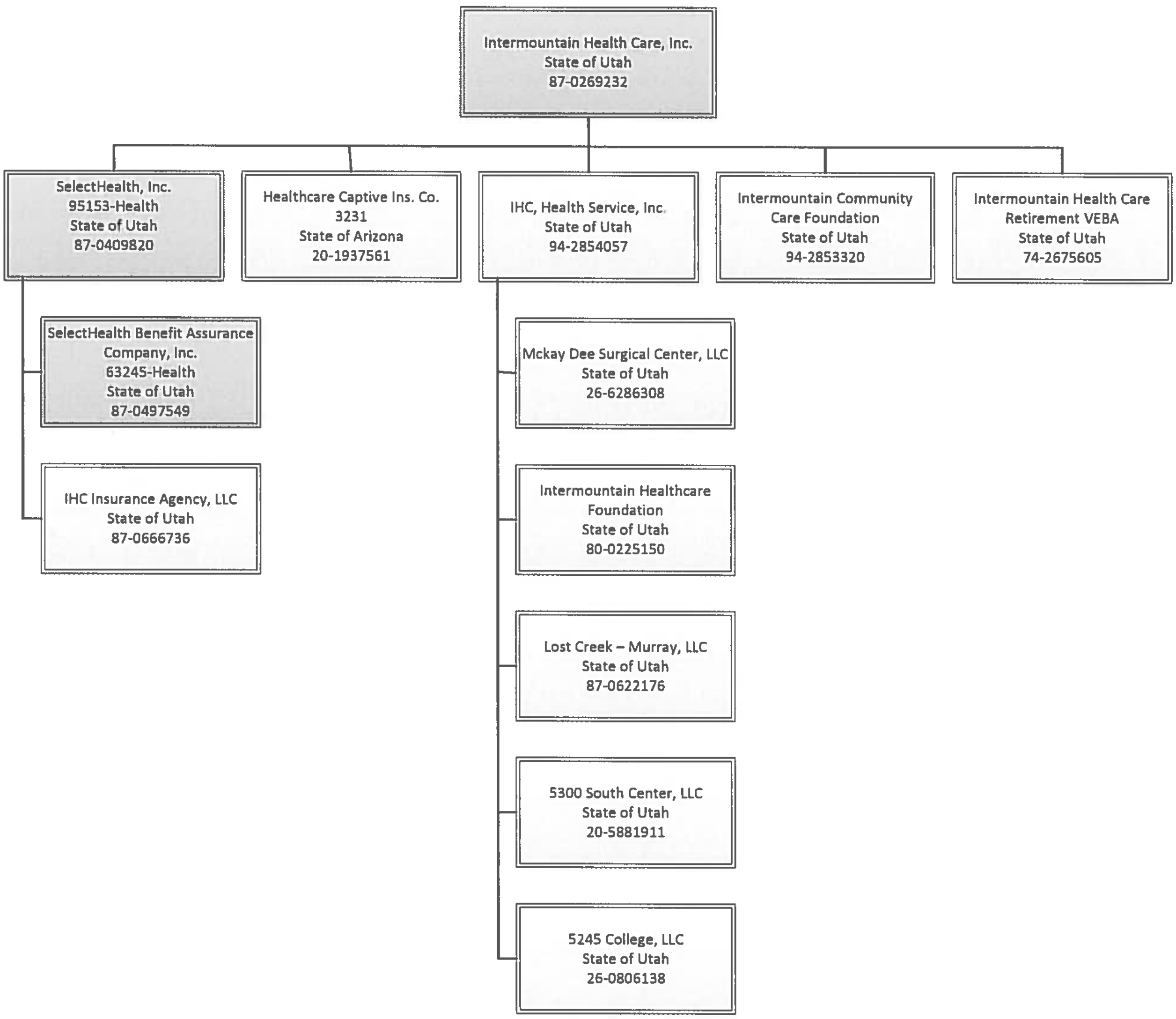
Investment Committee

Barbara Ray, Chair
Douglas Black
Jane Carlile
Spencer Eccles
Steve Huebner
Gary Hunter
Roy Jespersen
Kent Misener
Steven Thorley
Scott Anderson, ex officio

Holding Company

The Company is wholly owned and controlled by SHI, which in turn is controlled by IHC. The following is an abbreviated organizational chart derived from the Annual Statement, Schedule Y as of December 31, 2013:

ORGANIZATIONAL CHART
AS OF
12/31/13



IHC is a Utah nonprofit charitable corporation which, through its affiliated companies, provides health care and related services to communities and individuals in the intermountain region. IHC Health Services, Inc. (IHCHS) is a Utah nonprofit corporation that owns and manages hospitals, clinics and other health care related operations, and provides medical and administrative services to the Company. SHI is a nonprofit HMO and parent of the Company. IHC Insurance Agency, LLC was formed to administer agent and agency agreements associated with the Company's business.

The following agreements and arrangements were in place with affiliates during the examined period and as of December 31, 2013:

Administrative Services Agreement with SHI

SHBAC entered into an updated one year automatically renewable administrative services agreement with SHI on February 7, 2014. The relationship between SHBAC and SHI as outlined in this agreement will form the basis for any administrative or management services that result from SHI's issuance of insurance in states other than Utah and Idaho. Pursuant to the agreement, SHI agrees to provide certain finance, insurance, risk management, legal, compliance, product support, facilities management and information system services. SHBAC agrees to provide support of the national insurance arrangement, stop-loss coverage, short-term transitional individual coverage, and pharmacy benefit management services. Payments for services provided by either party are based on the fair value of those services and are paid in such intervals as the parties agree, but in no event less than annually.

Paid in Capital from SHI

In December 2010, the Company paid back $5,000,000 of additional paid in capital received from SHI.

FIDELITY BONDS AND OTHER INSURANCE

As of the examination date, the Company participated in fidelity bond coverage of $5,000,000 under a commercial crime insurance policy issued to IHC and its subsidiaries. The amount of coverage met the minimum limits recommended by the NAIC.

The Company was also insured under various other IHC insurance policies, including property, general liability, workers' compensation, errors and omissions, and directors' and officers' liability insurance.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. The Company operates under an Administrative Services Agreement with SHI.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to conduct life, accident and health business in the State of Utah. The Company markets the Transition plan (a temporary product) to the individual market, the Choice Premier (a PPO product), and offers stop-loss coverage to clients for whom SHI acts as a TPA. As stated in the SUBSEQUENT EVENTS section, the Company has obtained a license to do business in Idaho in March of 2014.

GROWTH OF COMPANY

	2013	2012	2011	2010
Admitted Assets	$17,959,976	$15,803,639	$13,733,972	$14,544,131
Liabilities	4,878,283	5,365,710	4,117,385	4,520,299
Surplus	13,081,693	10,437,929	9,616,587	10,023,831
Net Income	2,553,681	$991,343	(617,245)	1,107,285

LOSS EXPERIENCE

	2013	2012	2011	2010
Premiums Earned	$6,141,646	$3,970,497	$2,982,324	$1,318,115
Claims	2,935,008	3,178,421	3,330,932	394,616
Loss ratio per Company	48%	94%	112%	30%

There was significant fluctuation in the loss ratios during the course of this examination. The reasons are as follows:

Since SHI stopped carving out its HMO swing-out activity to SHBAC in 2009, most SHBAC premiums are from specific and aggregate stop-loss coverage sold to the growing block of self-funded employer groups.

- 2013 premium spike: six new groups sold with lower attachment points that had the effect of almost doubling stop-loss premiums. 2013 medical is a normal loss ratio for stop-loss.
- 2012 and 2011 experienced a high number of specific stop-loss claims, driving the loss ratio up.
- 2010 claims expenses were driven down by the favorable run-out of 2009 swing-out claims. Conversely, the funding mechanism that allocated swing-out premium to SHBAC based on claims expense ran-out unfavorably.

REINSURANCE

As of the examination date, an excess of loss reinsurance agreement with HM Life Insurance Company was in effect. The Company's initial retention is the first $1,000,000 of loss incurred at an IHC hospital, or the first $500,000 of loss incurred at other hospitals, per covered person during the contract year. The reinsurer assumes the following, with a maximum of $2,000,000 for each covered person per contract year.

- 90% of eligible losses, after certain reinsurance limitations, for approved transplant services performed in a hospital in which the reinsurer or the Company had negotiated arrangements. The Company's arrangements were required to be approved by the reinsurer.
- 50% for eligible losses, after certain reinsurance limitations, for transplant services performed in a hospital with which neither the reinsurer nor the Company had negotiated arrangements and/or the Company's arrangements were not approved by the reinsurer.
- 90% of eligible losses for services other than transplant services, after certain reinsurance limitations, for services performed in a hospital.

In addition to the above, the Company has an arrangement with the national insurer to provide coverage to members who are living outside of the SHI's coverage area. The examination noted that a contract between the Company and the national insurer is silent relative to characterizing the arrangement as reinsurance. There are no references to ceding risk to or assuming risk from the other party.

Therefore, we recommend that beginning in 2015, SHBAC record this transaction on NAIC Quarterly and Annual Statements as reinsurance in accordance with NAIC SSAP No. 61 and the NAIC Annual Statement blanks instructions as claims unpaid and premiums assumed. In addition, SHBAC should formalize a written reinsurance agreement with the national insurer with the required clauses in accordance with SSAP No. 61 and report the reinsurance assumed on Schedule S on its Annual Statements.

ACCOUNTS AND RECORDS

The Company's general ledger is on a system developed in-house, located on an IBM iSeries, and maintained and administered by IHCHS. Premium and claims transactions are automatically fed to the general ledger through the primary policy and claims administrative system, FACETS. No significant issues or deficiencies with the computerized system were noted from the examination.

An examination trial balance was prepared from the Company's computerized general ledger as of December 31, 2013. Account balances were traced to the Annual Statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

An independent certified public accounting firm, KPMG LLP, audited the Company's records for the years ended 2010, 2011, 2012, and 2013. Audit reports generated by these auditors and work papers were made available for examination use.

STATUTORY DEPOSITS

The Company's statutory deposit requirement was $400,000 pursuant to U.C.A. § 31A-5-211(2) for life, accident & health companies. The examination confirmed the Company maintained an adequate statutory deposit consisting of a Federal Home Loan Mortgage Corporation bond with a market value of $686,804 and a par value of $684,582.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of the financial statements.

SelectHealth Benefit Assurance Company, Inc.
ASSETS
as of December 31, 2013

		Net Admitted Assets	Notes
Bonds	$	13,095,191	
Cash and Short-Term Investments		4,282,276	
Receivables for Securities		221,221	
Investment Income Due and Accrued		66,480	
Net Deferred Tax Asset		137,000	
Receivables from Parent, Subsidiaries and Affiliates		157,808	
Total Assets	$	17,959,976	

SelectHealth Benefit Assurance Company, Inc.
LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2013

			Notes
Claims Unpaid (less $0 reinsurance ceded)	$	1,758,000	
Unpaid Claims Udjustment Expenses		5,000	
Aggregate Health Policy Reserves		1,930,366	
General Expenses Due or Accrued		7,976	
Current Federal and Foreign Income Tax Payable and Interest		152,000	
Payable to Parent, Subsidiaries and Affiliates		779,713	
Payable for Securities		245,228	
Total Liabilities	$	4,878,283	
Aggregate Write-ins for Special Surplus Funds		6,000	
Common Capital Stock		1,000,125	
Gross Paid in and Contributed Surplus		1,250,000	
Unassigned Funds (surplus)		10,825,568	
Total Capital and Surplus		13,081,693	1
Total Liabilities, Capital and Surplus	$	17,959,976	

SelectHealth Benefit Assurance Company, Inc.
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2013

		Current Year	Notes
Net Premium Income	$	6,141,646	
Change In Unearned Premium Reserves		0	
Risk Revenue		1,166,914	
Aggregate Write-ins for Other Non-Health Revenues		225	
Total Revenues	$	7,308,785	
Hospital and Medical:			
Hospital/medical Benefits		2,813,882	
Other Professional Services		19,031	
Emergency Room and Uut-of-area		102,095	
Aggregate Write-ins for Other Hospital and Medical		0	
Total Hospital and Medical expenses	$	2,935,008	
Less:			
Net Reinsurance Recoveries		0	
Total Hospital and Medical	$	2,935,008	
Claims Adjustment Expenses		99,949	
General Administrative Expenses		217,533	
Increase in Reserves		500,373	
Total Underwriting Deductions	$	3,752,864	
Net Underwriting Gain or (Loss)	$	3,555,922	
Net Investment Income Earned		229,799	
Net Realized Capital Gains (Losses)		(26,040)	
Net Investment Gains (Losses)	$	203,759	
Aggregate Write-ins of Other Income or Expenses	$	0	
Net Income (Loss) after Capital Gains Tax		3,759,681	
Federal and Foreign Income Taxes Incurred	$	1,206,000	
Net Income (Loss) After Capital Gains Tax	$	2,553,681	

SelectHealth Benefit Assurance Company, Inc.
RECONCILIATION OF CAPITAL AND SURPLUS
2010 through 2013

	2010	2011	2012	Per Exam 2013	Notes
Surplus Prior Year	$ 13,968,547	$ 10,023,832	$ 9,616,587	$ 10,437,930	
Net Income (loss)	1,107,285	(617,245)	991,343	2,553,681	
Change in Net Unrealized Capital Gains (loss)	-	-	-	(2,484)	
Change in net deferred income tax	(255,000)	210,000	(170,000)	(81,000)	
Change in Nonadmitted Assets	203,000	-	-	(76,558)	
Change in Paid In Capital	(5,000,000)	-	0	250,125	
Net Change in Surplus	$ (3,944,715)	$ (407,245)	$ 821,343	$ 2,643,764	
Surplus End of Reporting	$ 10,023,832	$ 9,616,587	$ 10,437,930	$ 13,081,693	1

NOTES TO THE FINANCIAL STATEMENTS

<u>(1) Capital and surplus</u>	<u>$13,081,693</u>

The Company's capital and surplus was determined to be $13,081,693, the same as reported in the Company's Annual Statement as of December 31, 2013.

The Company's minimum capital requirement was $400,000 as defined in U.C.A. § 31A-5-211(2) (a). As defined by U.C.A. § 31A-17 Part 6, the Company had total adjusted capital and surplus of $13,081,693, which exceeded the company action level risk-based capital (RBC) requirement of $1,878,128 by $11,203,565.

ACKNOWLEDGEMENT

Scott S. Garduno, FSA, MAAA, of the actuarial firm of Taylor-Walker & Associates performed the actuarial phases of the examination. Malis Rasmussen, MSA, CFE, SPIR, Audit Manager, supervised the examination John V. Normile, CFE, of INS Regulatory Insurance Services, Inc., and David C. Gordon, MBA, CIA, CISA, of INS Services, Inc., participated in the examination representing the Utah Insurance Department. Laura A. Shepherd, MBA, CFE, PIR, ACI, examiner for the Utah Insurance Department also participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

Neeraj Gupta

Neeraj Gupta, CFE
Examiner-in-Charge
INS Regulatory Insurance Services, Inc.
Representing the Utah Insurance
Department